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Post-Election Trade Politicking Begins . . .

Trade officials in the United States and Japan are preparing for a post-election push on outstanding issues, both to wrap up various negotiations and to head off anticipated frictions resulting from a big trade surplus in Japan's favor. Initial interest is focused on an interagency report from Secretary of State George Shultz to Senate Foreign Relations Committee chairman Charles Percy (R, Ill.) assessing the status of Japan's recent market-opening measures. The study -- dubbed the Percy Report in honor of the recently defeated senator -- concludes that progress has been made in a number of areas, but argues that significant barriers continue to thwart sales of U.S. goods to Japan.

light of bilateral discussions over software and microchip copyright protection, an area of significant concern in the United States and one that could become contentious in the months ahead.

Objections were also raised by Japanese officials about recent incidents where the Department of Defense (DOD) blocked or allegedly intervened in the acquisition of American firms by Japanese corporations because the companies do work that, according to DOD, is essential to national security. Access to this technology through takeovers, the Pentagon's actions imply, endangers American interests, even if the potential purchaser is an American ally (see JEI Report 40B, October 19, 1984).

The DOD position, some observers say, is a threat to increased Japanese investment in the United States and could upset potential technology transfers between American and Japanese companies. Should DOD continue policies that are interpreted by overseas concerns as hostile, it is argued, international companies will abandon attempts to expand their American market presence through direct investment. It could also cast doubts upon the sincerity of American requests for bilateral cooperation in technology exchanges across a number of fields. U.S. officials reportedly promised to look into these concerns.

Michael Chinworth

Bilateral Trade Deficit Headed for $36 Billion Level

Projections of the overall 1984 U.S. merchandise trade deficit are being revised upward almost in step with the release of the latest batch of monthly data. At the start of the year, the Commerce Department was forecasting that the red-ink trade entry would move up from a record-shattering $57.5 billion in 1983 to the $100 billion range (exports f.a.s., imports Customs value). By mid-year, Reagan administration trade policymakers would have happily settled for an imbalance of this once-unimaginable magnitude since the deficit by then had topped $51 billion. Now they are hoping that imports will exceed exports by no more than $115 billion. This, however, could easily prove to be wishful thinking. With the biggest import quarter of the year still to come, the aggregate U.S. trade deficit already adds up to a whopping $84.6 billion.

Japan's role in the nonstop erosion of the U.S. trade account continues to fly in the face of conventional wisdom. The bilateral red-ink entry did balloon to $25.9 billion in the first nine months of 1984 -- from $13.6 billion in the year-earlier period (see accompanying tables) -- but this surge represented only one-fourth-plus of the deterioration in the overall trade deficit. The main hemorrhage occurred in U.S. trade with developing countries, where 1983's nine-month deficit of $19.5 billion was replaced this year by a $36.1 billion imbalance. Worsening trade results with Canada and the European Community were also a key cause of the increased red ink on the U.S. trade books. Trade with this country's European partners was out of kilter by $8.6 billion through September -- a significant turnaround from last year's $0.7 billion surplus, while the imbalance with Canada slid $4.4 billion to $14.3 billion.

U.S. Exports to Japan

(in millions of dollars, f.a.s. value basis)

	January-September 1983	January-September 1984	Percent Change
Total Exports	$15,709.4	$17,416.8	10.9%
Industrial Supplies	6,267.3	6,718.7	7.2
Bituminous Coal	758.3	699.0	-7.8
Petroleum Products	467.7	496.8	6.2
Natural Gas	208.4	196.9	-5.5
Nuclear Fuels	149.5	129.1	-13.6
Logs and Lumber	684.4	651.1	-4.9
Paper Base Stocks	346.9	401.3	15.7
Paper and Paper Products	216.2	222.6	3.0
Organic Chemicals	477.4	534.3	11.9
Inorganic Chemicals	461.5	620.3	34.4
Plastics and Synthetic Resin Compounds	232.7	267.9	15.1
Fertilizers and Insecticides	198.8	210.8	6.0
Steel Scrap	158.0	198.0	25.3
Nonferrous Ores and Scrap	229.4	257.1	12.1
Nonferrous Metals	313.4	299.1	-4.6
Textiles	73.7	86.3	17.1
Raw Cotton	362.7	453.2	25.0
Hides and Skins	170.6	243.0	42.4
Leaf Tobacco	69.5	42.9	-38.3
Food and Feed	4,067.9	4,577.8	12.5
Corn	1,232.2	1,553.6	26.1
Sorghum	50.6	163.4	222.9
Soybeans	851.5	899.2	5.6
Wheat	434.7	402.0	-7.5
Fruits and Vegetables	326.8	349.3	6.9
Meat and Meat Products	427.8	430.4	0.6
Fish and Fish Products	465.5	450.0	-3.3
Capital Goods	3,520.2	4,064.1	15.5
Nonelectric Machinery	2,089.8	2,520.5	20.6
Data Processing Equipment	649.5	825.8	27.1
Measuring, Testing and Control Instruments	294.8	325.6	10.4
Laboratory Testing and Control Instruments	67.3	70.1	4.2
Scientific, Professional and Medical Equipment	166.6	186.0	11.6
Power Generating Equipment (excl. aircraft and automotive engines)	123.7	230.9	86.7
Oil and Gas Field Equipment	70.7	52.0	-26.4
Metalworking Equipment	73.0	77.2	5.8
Service Industry Equipment	84.5	70.1	0.4
Electric Machinery	492.3	656.3	33.3
Generators and Transformers	48.8	70.0	43.3
Broadcast and Communications Equipment	220.4	324.3	47.1
Telephonic and Other Electric Equipment	223.1	262.0	17.4

Transportation Equipment	938.1	887.3	-5.4
Civilian Aircraft	489.8	304.9	-37.8
Civilian Aircraft Engines and Parts	273.5	341.5	24.9
Automotive Parts	100.7	132.8	31.9
Consumer Goods	1,050.2	1,114.8	6.2
Pharmaceuticals	413.7	424.4	2.6
Toys and Sporting Goods	89.1	69.1	-22.4
Cigarettes	57.4	74.6	30.0

U.S. Imports from Japan

(in millions of dollars, Customs value basis)

	January-September 1983	January-September 1984	Percent Change
Total Imports	$29,279.8	$43,321.8	48.0%
Capital Goods	8,408.2	14,577.1	73.4
Nonelectric Machinery	5,601.8	9,782.0	74.6
Business Machines	2,627.9	4,874.5	85.5
Metalworking Machinery	463.4	691.3	49.2
Agricultural Machinery	155.5	273.8	76.1
Specialized Industrial Machinery	498.9	1,095.2	119.5
Scientific, Professional and Medical Equipment	221.8	353.4	59.3
Electric Machinery	2,638.5	4,529.6	71.7
Transportation Equipment	167.9	265.6	58.2
Automotive Products	10,697.0	14,114.6	31.9
Passenger Cars	7,817.3	9,465.6	21.1
Assembled Trucks	1,438.4	2,176.7	51.3
Automotive Parts	1,428.9	2,424.2	69.7
Consumer Goods	5,809.4	8,466.1	45.7
Video and Audio Recorders and Players and Stereo Equipment	1,534.1	2,792.0	82.0
Television Sets	279.9	523.4	87.0
Radio Receivers	174.8	226.7	29.7
Tableware and Glassware	249.5	311.4	24.8
Metal Cookware and Cutlery	268.4	299.4	11.5
Photographic and Optical Goods	591.2	775.6	31.2
Clocks and Watches	252.1	317.5	25.9
Toys and Sporting Goods	208.4	299.7	43.8
Motorcycles and Parts	576.9	520.2	-9.8
Clothing	247.3	385.7	56.0
Intermediate Goods	3,868.5	5,542.5	43.3
Steel Mill Products	1,319.3	2,353.7	78.4
Nonferrous Metals	297.6	397.1	33.4
Organic Chemicals	322.1	401.4	24.6
Tires and Tubes	288.7	392.8	36.1
Textiles	411.1	522.0	27.0

Unfortunately for bilateral relations, the real part played by Japan in this year's runaway U.S. trade deficit is moving closer to the commonly accepted view. While American sales to the rest of the world picked up additional steam in each of 1984's first three quarters, the pace of exports to Japan first slowed from 18.5 percent in the January-March period to 12.5 percent in the following three months and then flagged again to just 2.9 percent in the July-September quarter. Conversely, the growth of U.S. imports from countries other than Japan gradually moderated over the course of the January-September 1984 period, but purchases of Japanese-made products continually gained momemtum, posting a gain of 60.2 percent in the third quarter after starting off the year with a 40 percent jump.

The net result of these two trends is inescapable: the bilateral trade deficit could easily hit $36 billion by the end of the year. Perhaps surprisingly, the exchange rate is playing only a bit role in this unfolding scenario, at least on paper, since through September, the yen actually averaged 1.7 percent more than in the first nine months of 1983. The real culprit is the strength of the U.S. economic expansion. Even allowing for a continuation of the third quarter's slowdown in the October-December period, growth will be considerably more robust than trade forecasters anticipated at the start of 1984 and this will show up on the bottom line of the U.S. trade account.

Susan MacKnight

Washington Ups Ante in Fight Against Mixed Export Credits

U.S. policymakers have finally decided to fight fire with fire in assisting U.S. companies to obtain third-country export contracts. Late last month, the Export-Import Bank of the United States and the Agency for International Development (AID) offered their first mixed foreign aid and commercial export credit deal in support of a multi-million dollar sale of locomotives to Botswana. Although the mixed credit package will not be finalized until either General Electric Co. or General Motors Corp., the domestic bidders, wins the contract, AID is expected to put up about 20 percent of the financing with Eximbank supplying the rest in the form of a loan. Pointing to the mixed credit financing offered by the Canadian government to Bombardier Ltd., one of that country's largest locomotive manufacturers, U.S. companies have repeatedly stressed that comparable financing terms are imperative if they are to land the Botswana contract. This is the first time Washington has offered a mixed credit package since Congress directed the Eximbank to pursue a more aggressive policy toward this financing arrangement over a year ago.

Mixed credits combine grants or soft loans with official export financing. The use of aid monies stretches the country's export financing funds since the Eximbank-supplied funds must be offered at internationally agreed-upon interest rates. Heretofore, Washington has vehemently opposed this financing practice, labeling it "predatory" and unfair, and even waged an unsuccessful campaign to limit its use in the Organization for Economic Cooperation and Development (OECD)-sponsored Arrangement on Guidelines for Officially Supplied Export Credits. Responding to business complaints of lost sales due to foreign mixed credits, however, Congress, in authorizing funds for

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1982	1983	January-September 1983	January-September 1984	July 1984	August 1984	September 1984
Japan's Balance of Payments							
Trade Balance	$ 18,079	$ 31,454	$22,577	$30,950*	$ 4,124*	$ 2,221*	$ 5,220*
Exports (f.o.b.)	137,663	145,468	105,618	124,113*	14,837*	13,178*	14,484*
Imports (f.o.b.)	119,584	114,014	83,041	93,163*	10,713*	10,957*	9,264*
Current Account Balance	6,850	20,799	14,560	23,577*	3,210*	1,231*	4,348*
Long-Term Capital (net)	-14,969	-17,700	-12,125	-32,641*	-7,146*	-3,183*	-2,189*
Overall Balance	-4,971	5,177	3,234	-11,655	-2,665	-3,435	2,777
International Reserves (end of period)	23,262	24,496	24,641	25,444	25,123	25,428	25,444
Japan's Customs Clearance Trade							
Trade Balance	6,900	20,534	14,367	22,328*	3,199	1,113	4,492*
Exports (f.o.b.)	138,831	146,928	106,461	125,269*	14,807	13,314	14,628*
Cars	18,015	19,535	14,404	16,432*	2,080	1,564	1,855*
Steel	15,645	12,843	9,322	10,086*	1,262	1,120	1,208*
Imports (c.i.f.)	131,931	126,393	92,093	102,942*	11,608	12,201	10,136*
Crude Oil	46,274	40,063	29,168	29,903*	3,202	3,701	2,650*
Japan-U.S. Trade							
Trade Balance	12,151	18,181	12,017	23,529*	3,253	2,438	3,314*
Exports (f.o.b.)	36,330	42,829	30,102	43,712*	5,566	4,848	5,342*
Imports (c.i.f.)	24,179	24,648	18,084	20,183*	2,313	2,410	2,028*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y235.00	Y232.20	---	---	Y245.50	Y241.30	Y245.50
U.S.-Japan Trade							
Trade Balance	-16,778	-19,289	-13,570	-25,905	-4,101	-3,179	-3,172
Exports (f.a.s.)	20,966	21,894	15,709	17,417	2,158	1,906	1,768
Industrial Supplies	9,173	8,734	6,267	6,719	821	731	689
Food and Feed	4,971	5,555	4,068	4,578	594	534	468
Capital Goods	4,434	5,116	3,520	4,064	487	418	385
Consumer Goods	1,356	1,394	1,050	1,115	135	129	130
Imports (Customs)	37,744	41,183	29,280	43,322	6,259	5,085	4,940
Automotive Products	12,890	14,919	10,697	14,115	2,021	1,604	1,471
Industrial Supplies	6,795	5,391	3,869	5,543	762	625	624
Consumer Goods	7,842	8,296	5,809	8,466	1,220	1,055	1,006
Capital Goods	9,530	11,896	8,408	14,577	2,170	1,734	1,773

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1982	1983	January-August 1983	January-August 1984	June 1984	July 1984	August 1984
Discount Rate (end of period)	5.5%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	9.2%	7.4%	7.4%	7.8%	7.5%	7.7%	7.7%
Industrial Production	0.3%	3.6%	1.2%	11.6%	12.6%	12.8%	11.0%
Manufacturing Operating Rate	-2.9%	1.6%	-0.7%	9.6%	10.1%	9.6%	8.8%
Number of Bankruptcies	-2.8%	11.9%	8.7%	14.3%	-0.9%	14.3%	4.7%
Residential Construction Starts	-0.5%	-0.8%	-1.2%	4.4%*	-0.7%	6.3%	4.3%*
Job Openings to Applications (ratio)	0.61	0.60	0.59	0.64	0.64	0.64	0.64
Nominal Wages	4.5%	3.5%	3.8%	4.4%*	5.5%	4.1%	3.3%*
Labor Productivity	1.0%	4.6%	1.3%**	10.6%**	11.3%	n.a.	n.a.
Wholesale Prices	1.8%	-2.2%	-1.7%	-0.6%	-0.4%	0.0%	0.2%
Consumer Prices	2.7%	1.9%	2.0%	2.2%	1.9%	2.6%	1.9%
Yen-Based Export Prices	3.9%	-6.0%	-5.8%	-0.3%	-0.2%	1.7%	1.1%
Yen-Based Import Prices	7.9%	-7.8%	-5.4%	-4.6%	-3.0%	-2.1%	-3.5%

*Preliminary

**Through June of each year only.

For Japan's most recent GNP figures, see JEI Report No. 38B, October 5, 1984.